Asset performance evaluation

Understanding data, demonstrating results and taking action

nhmf
National Housing
Maintenance Forum

NHMF
Maintenance
Conference
2019

Agenda

1 – Asset management in the social housing sector today

2 – Improving understanding of the performance of assets

3 – Demonstrating the results to stakeholders

4 – Using this information to take action

5 – Client experience

Introduction – Savills Affordable Housing

Affordable Housing division consists of:

- **Housing Consultancy**
- Housing Development & Regeneration
- Delivery & Compliance
- Surveying
- Cost Consultancy
- Valuations
- Savills Financial Consultants

Affordable Housing Consultancy are a team of 15 within a division of 92 across England and Wales

Cathy Osborn
Director

Nick Carlisle
Associate

Asset Performance Evaluation Experience

750,000 properties modelled by Savills

Includes **20%** of English HA rented stock with significant Welsh, Northern Ireland and Local Authority landlords

User group meets regularly to share best practice

1 – Asset management in the social housing sector today

Asset Management in the Social Housing Sector Today

Use of stock

Physical standards

Technological innovation

Accountability to consumers

Housing growth

Key issues facing asset managers today

- Majority of organisations understand their stock using a form of asset modelling/NPV modelling – how is this information used to manage risk and take action?

- How can asset managers balance value preservation with value creation?

- What is the balance between optimizing capacity and stressing the business?

- Landlords need to demonstrate safety, security, transparency – inspire trust and confidence. What does this mean for the focus of the asset management task?

2 – Improving understanding the performance of assets

1
Understanding

- Stock condition
- True cost of day to day operations
- Local markets and demand
- The social housing outcomes you require

2
Demonstrating

- Performance over the long term
- Performance variations

3
Action

- Agree triggers and candidates for OA
- Explore alternative actions
- Prepare for investment planning
- Robust evidence base for decisions

savills

New VfM standard April 2018 metrics linked to sector scorecard. Key metrics relevant to asset management:

- Reinvestment %
- Social housing cost per unit
- ROCE

Understand the return on assets, and have a strategy for optimising the future returns on assets – including rigorous appraisal of options for improving value for money including the potential benefits in alternative delivery models - measured against the organisation's purpose and objectives

Set measurable plans for making better use of assets based on an understanding of costs, values and yields;

Strengthen business plan and make more efficient use of capital resources

Demonstrate value for money and return on assets – against objectives

Consider long-term planning for obsolescence and renewal

Test alternative strategies and enable balanced investment decisions – supporting difficult decision making

Communicate reasons to members, staff and residents

Assist the organisation in delivering its social, financial and housing objectives

3 – Demonstrating the results to stakeholders

Performance Dashboard

Economic assumptions to match business plan

Different investment scenarios

savills

Navigation						Refresh & Model Year		Charts			Cell Key	
Dashboard	Audit Log	Stock List	Social Scores	Major Investment	Voids	Refresh Reports		Cashflow	NPV By AG	15 x 30 NPV	Formula	Input
	Total Costs	Rent	Cashflow-NPV	Comparison	Output to OA	Model Year	2018	Yield	NPV vs OMV	NPV vs Social	Not Used	VBA
											Linked	
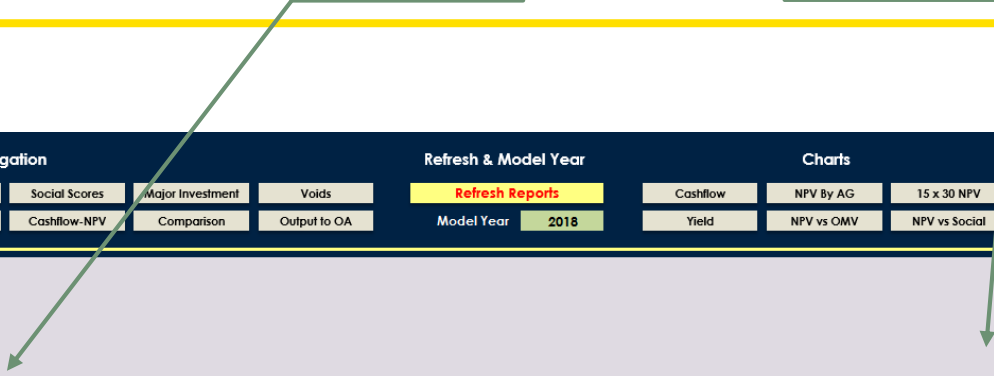
Performance bands

Portfolio overview

Future performance

30 Year NPV

OK to Invest
Optimise Procurement

Recovery and
Improvement Plan

Option Appraisal

£(15,000) £(10,000) £(5,000) £- £5,000 £10,000 £15,000 £20,000 £25,000 £30,000 £35,000

savills
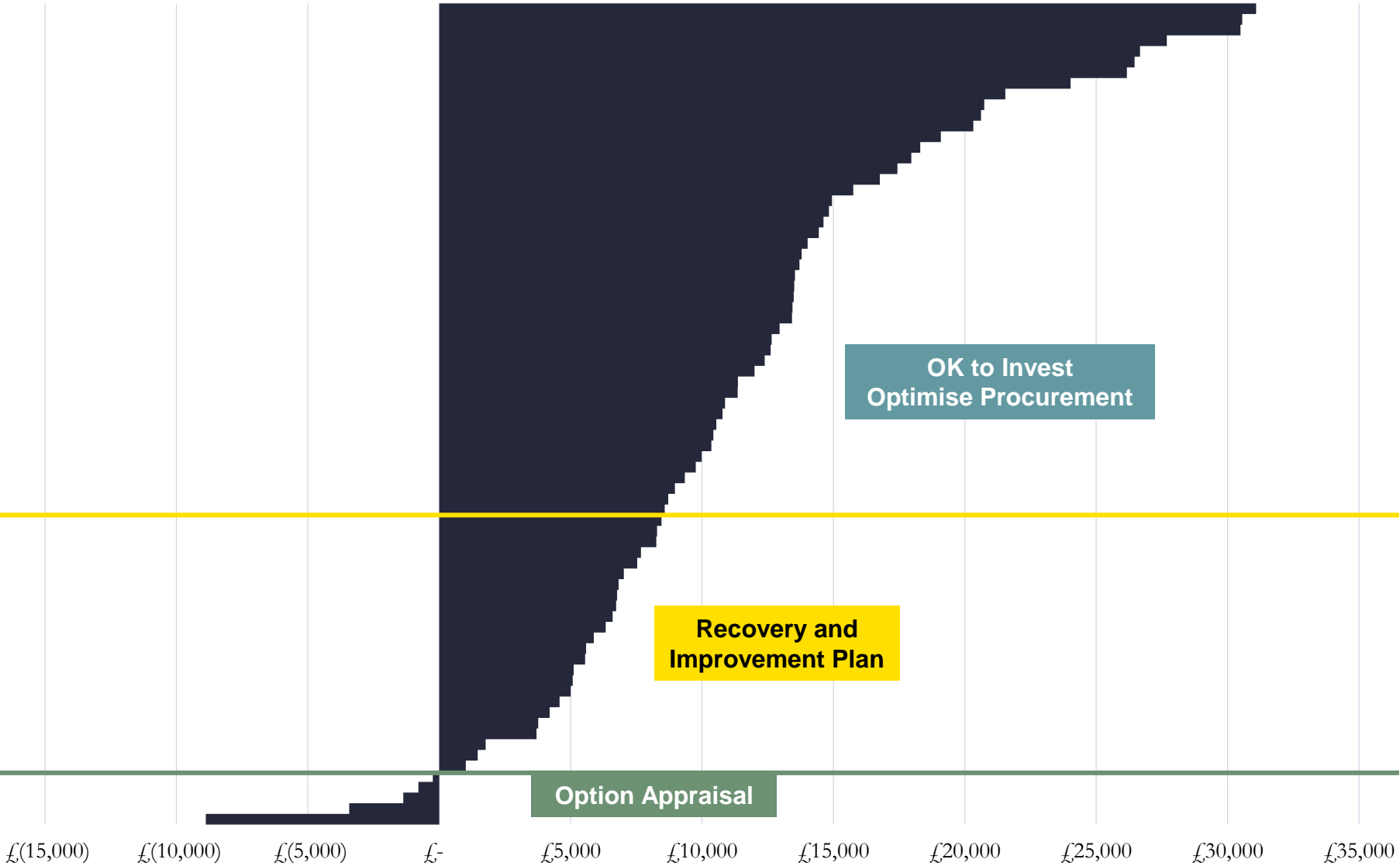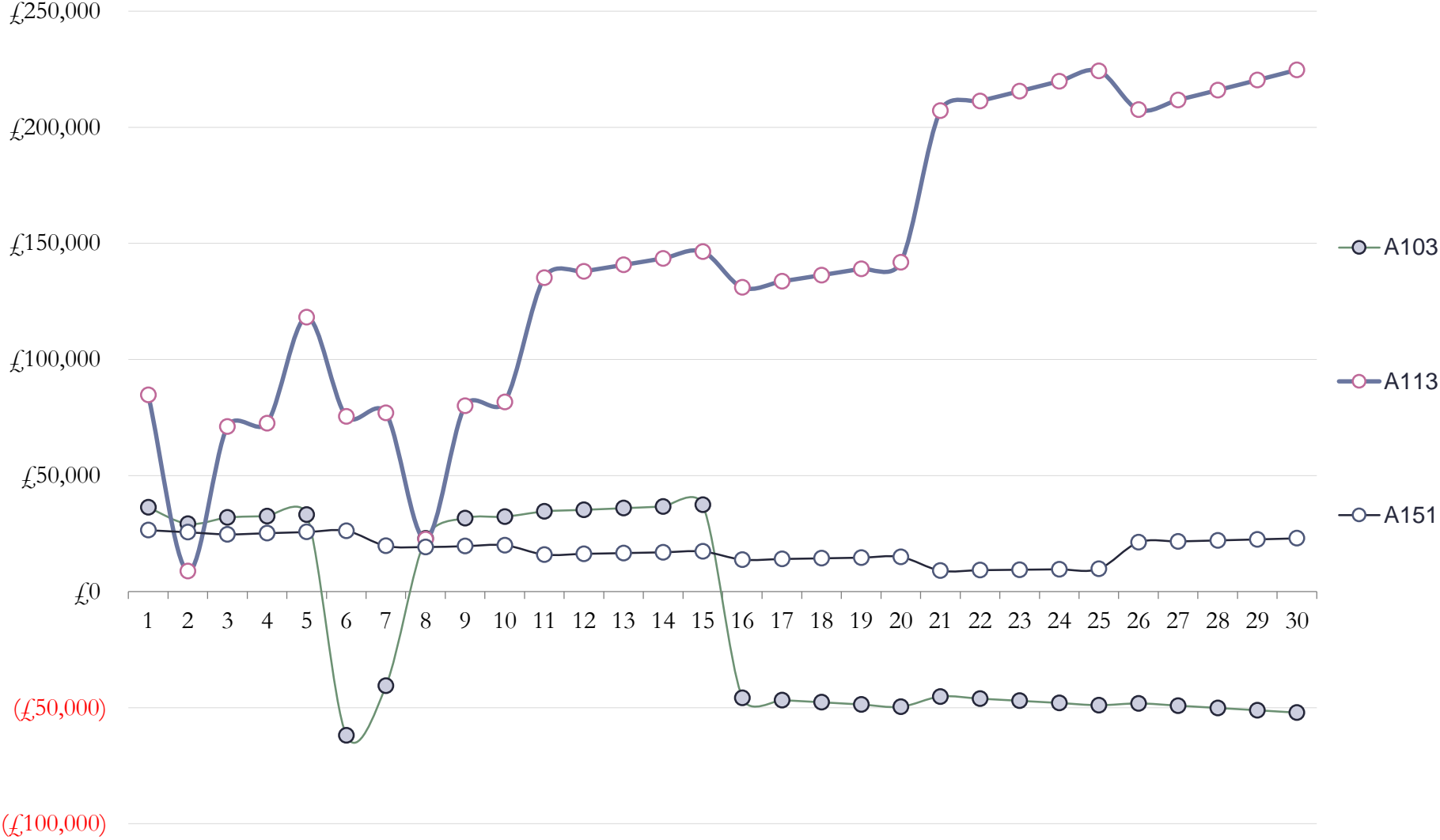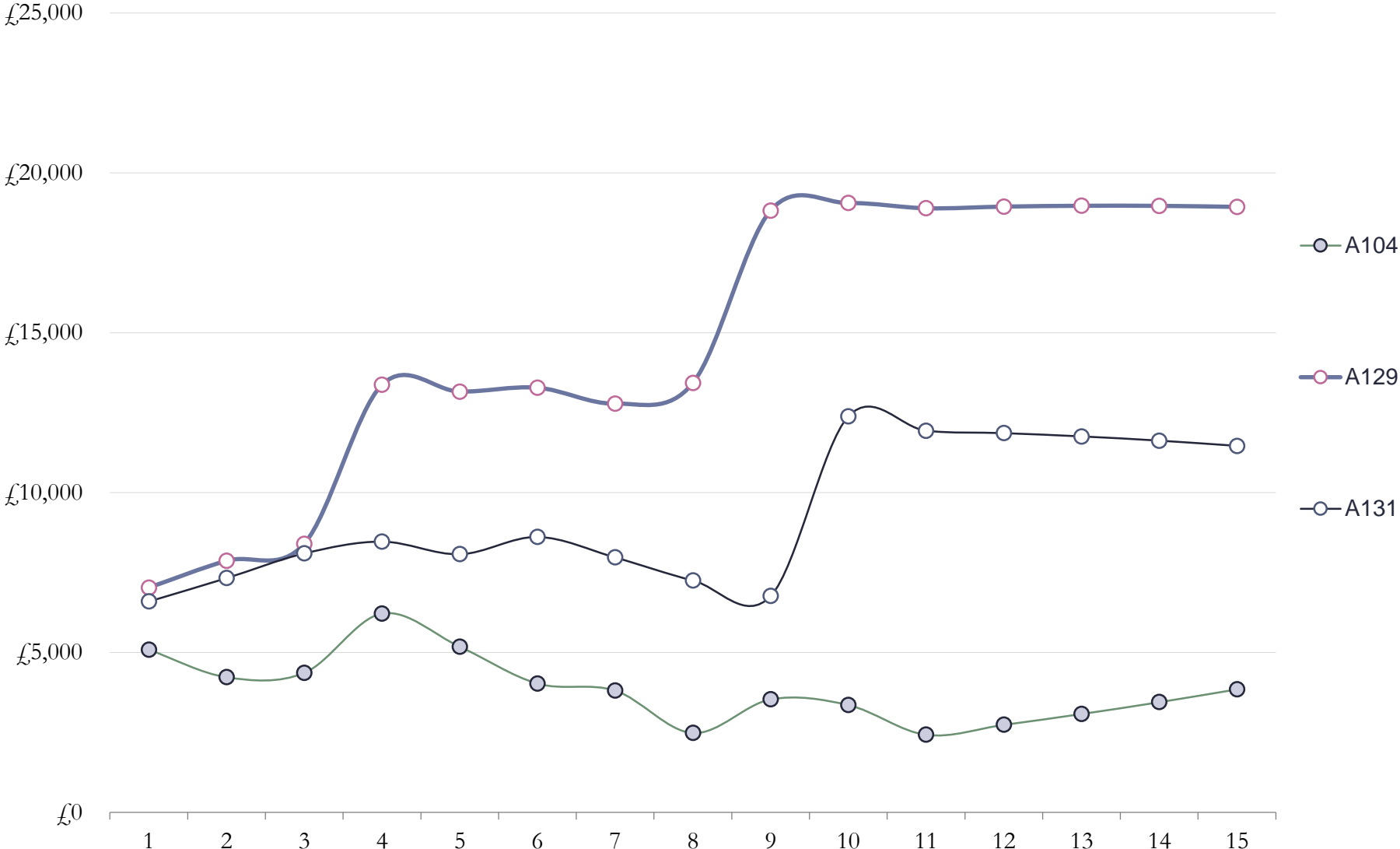
Identifying Key Performance Drivers

Current performance

Future change

Void loss

Future investment need

Asset Group	Total Units				
A121	32				
A145	52				
A142	23				
A156	10				
A176	7				
A132	14				
A118	38				
A159	13				
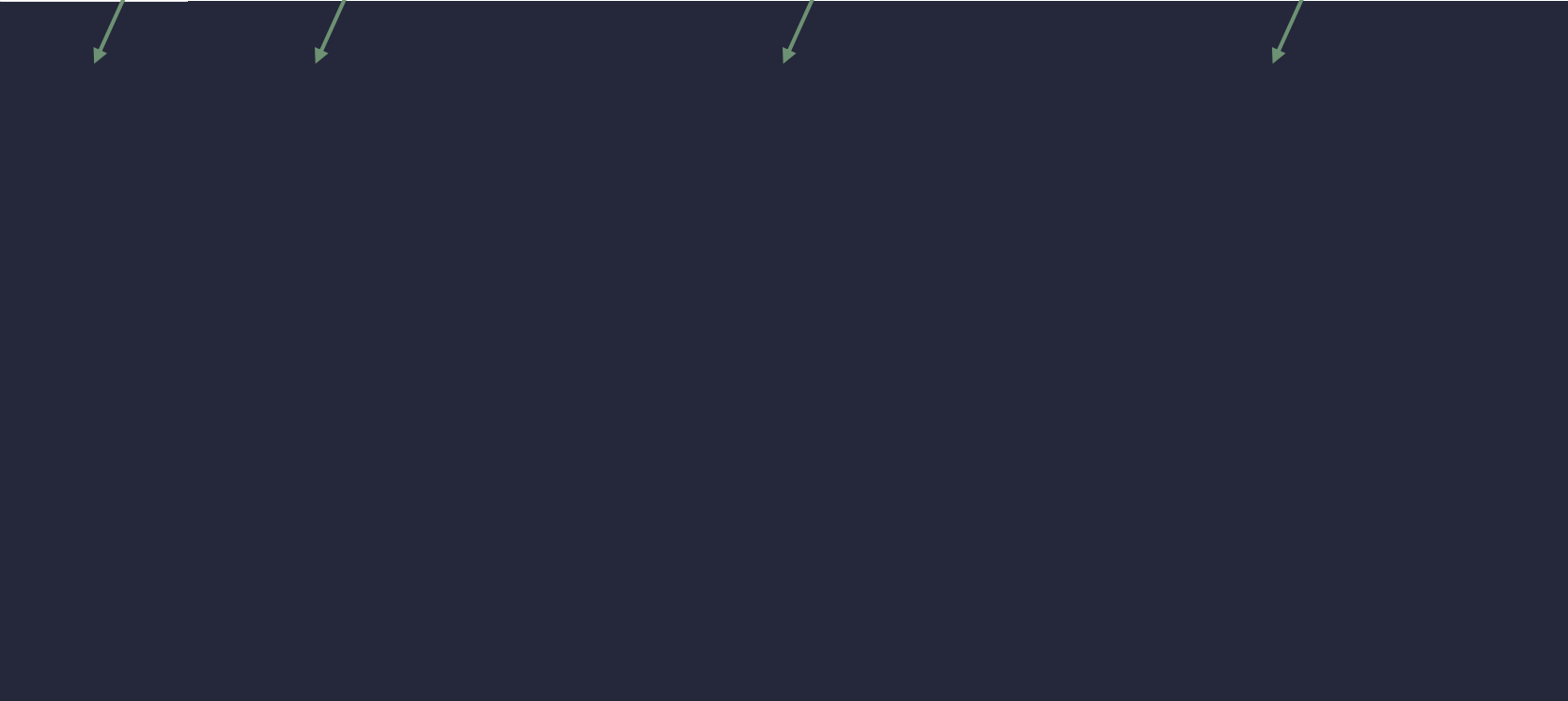
Assessing Performance Against Social Objectives – Why?

- Corporate objectives beyond bricks and mortar

- Purpose of assessing against social objectives:
  - Rating each area based on housing related sustainability criteria
  - Improve delivery of the organisation's social housing objectives

- Support neighbourhood planning, community investment and asset management

- Use a mix of internal and external data

- Combined score compared with asset performance

- Weightings applied based on:
  - Your priorities
  - Data quality

- Weightings can be flexed to drill down into specific issues

Not All About The Money – Social Objectives Examples

savills

Rent arrears
Fuel poverty

External data
IMD
Police
ONS

Resident
satisfaction

Development
potential

ASB/Crime
rates

Demand
Turnover

NPV vs Social Objectives

POOR NPV
GOOD SOCIAL

GOOD NPV
GOOD SOCIAL

POOR NPV
POOR SOCIAL

GOOD NPV
POOR SOCIAL

Howdens Estate 1950 – 1979 GN

Dwellings : 11
Avg NPV : £8,292
Avg Sus : 3.83

(£15,000)   (£10,000)   (£5,000)   £0   £5,000   £10,000   £15,000   £20,000   £25,000   £30,000   £35,000

savills
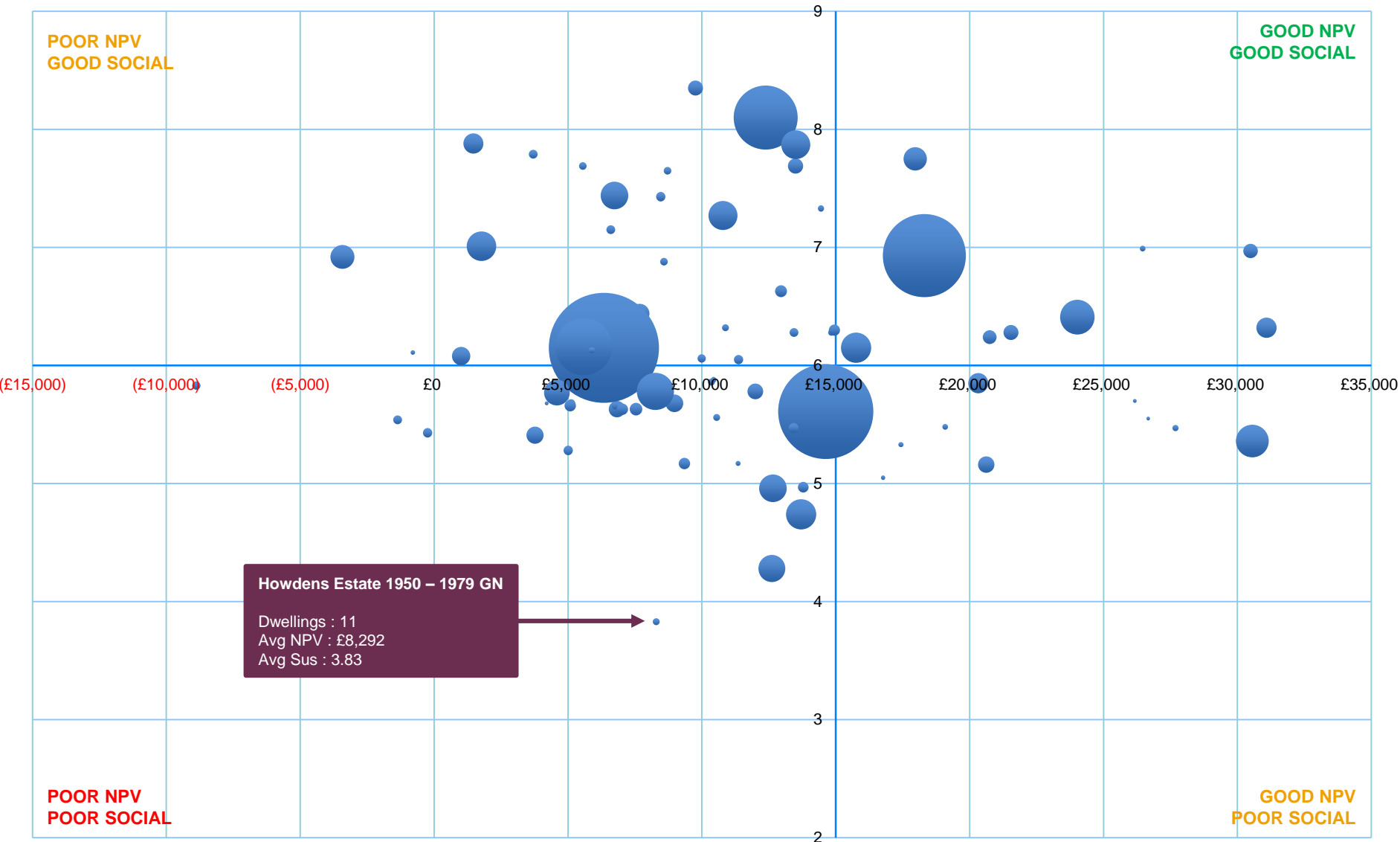
4 – Using the results to take action

Key Elements of Asset Management Strategy

Stock Investment : Keeping our assets in a condition that is appropriate for their use and regulatory requirements that apply

Active Asset Management: Maximising the value derived from our assets by the business – value that is utilised in delivery of our social purpose

Supporting Wider Objectives: Contribute to operating strategy to stabilise, improve and grow the business

Savills Housing Sector Survey – Asset Management to Support Growth and Regeneration

savills

86% feel the sector is not doing enough (but there is appetite for change)

Priorities: Vulnerable households; lower paid working households; homeless

2/3 say building more is the main priority (1/3 stock management)

Land is the main sticking point

The policy environment is improving but could go further

Unhealthy competition for s106 & development land

Low market volumes will constrain s106 opportunities

The planning system will present opportunities

A step change to delivery and partnerships is needed

Neighbourhood Planning – Model Framework

Strategic objectives applied at neighbourhood level

Supporting Regeneration in Challenging Markets

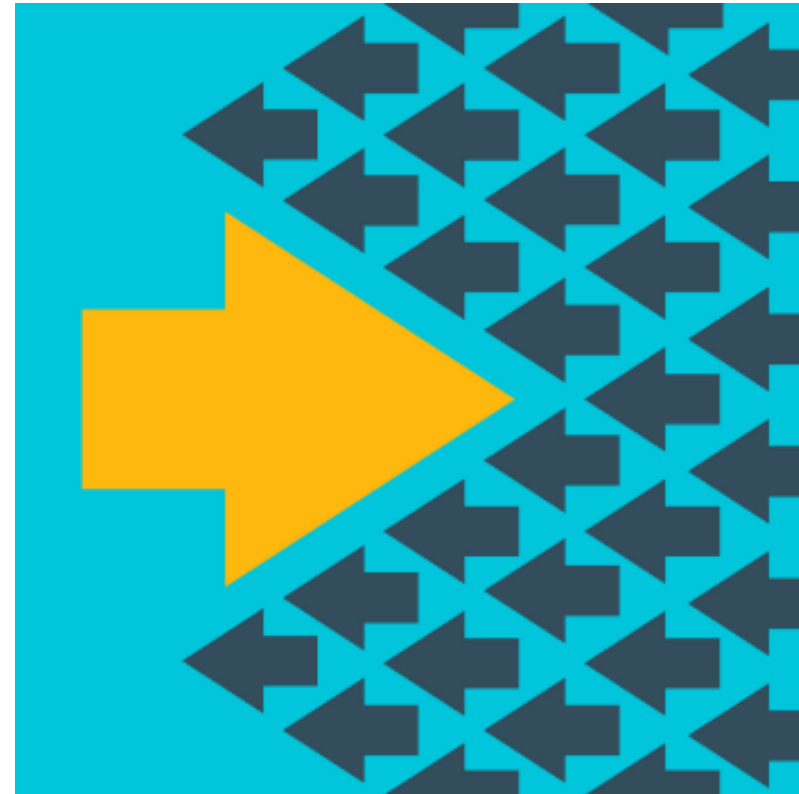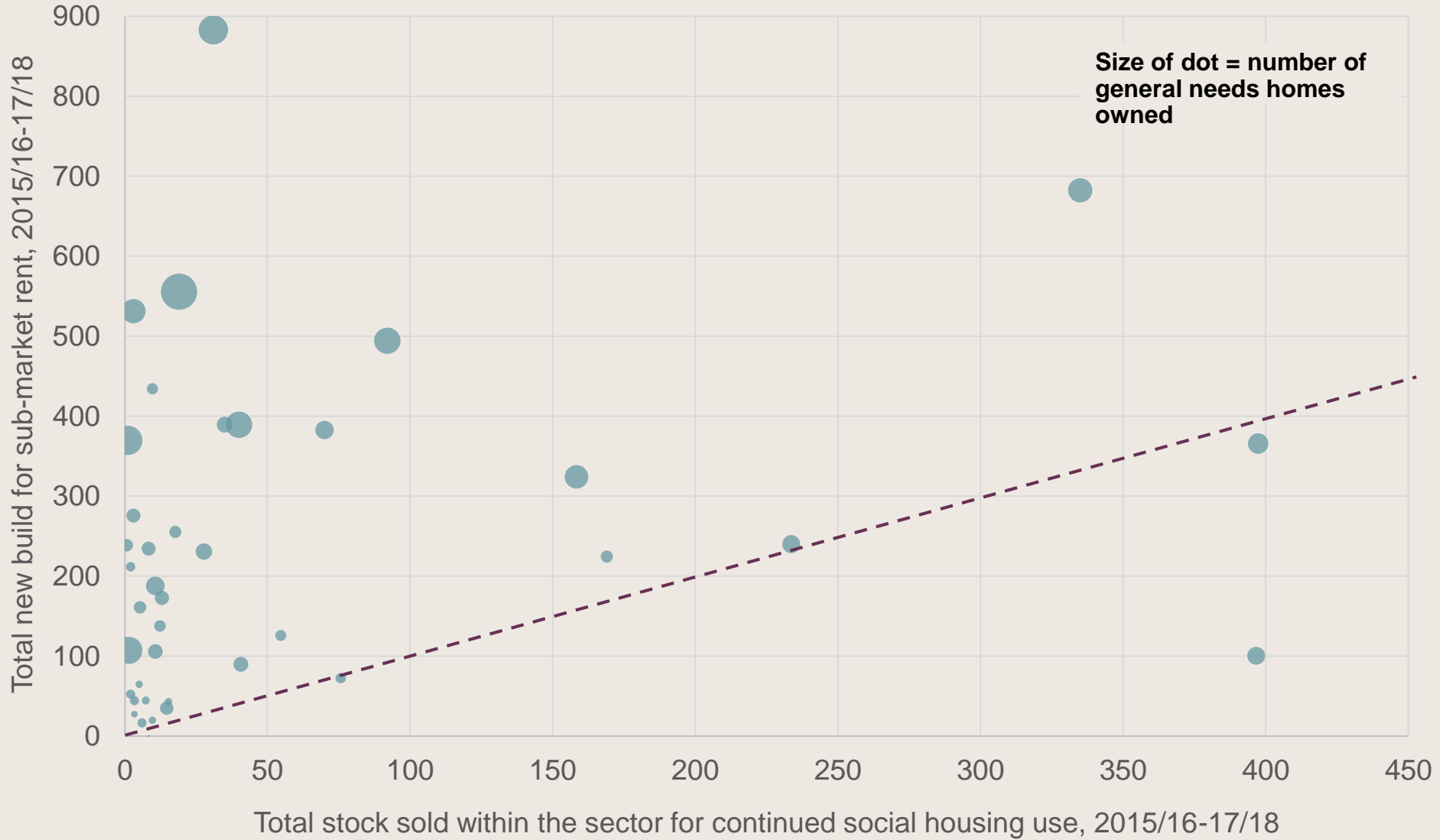| Recognising that not all regeneration will wash its face | Board agreement that "something needs to be done" | Identifying funds elsewhere in asset base/ business plan to support activity in lower viability areas | Clear agreement of outcomes to be achieved | Working closely with residents from the start | Local Authority and Homes England support |

Process

1. Obtain latitude & longitude for all properties

2. Intersect latitude & longitude with building outlines

3. Underlay title ownership polygon

4. Calculate area of building polygons and area of title polygon

5. Calculate density – in this instance only **17% of the site is utilised**

6. Repeat programmatically across entire portfolio

Drivers for Stock Rationalisation

- **Service Quality**
  - Customer service
  - Customer satisfaction

- **Financial imperatives**
  - Release funds for growth

- **Management efficiencies – LIFE model**

- **Consolidation after merger**

- **Changing demand for a product, e.g.**
  - Sheltered housing
  - Supported housing
  - Street property

Organisations Engaged in Stock Rationalisation also Show Net Gains

Size of dot = number of general needs homes owned

Total new build for sub-market rent, 2015/16-17/18

Total stock sold within the sector for continued social housing use, 2015/16-17/18

Process and Decisions – Are You Match Fit?

- Clear objectives

- Avoid opportunities which don't fit

- Know your limits

- Employ Professionals – RICS/RIBA/TCPA etc.

- Hurdle rates and investment criteria

- Standardise modelling and decision framework

- Responsive & fleet of foot

- Layers of approvals?

- Larger deals - Exec and Board sub group

- Governance?

5 – Client experience

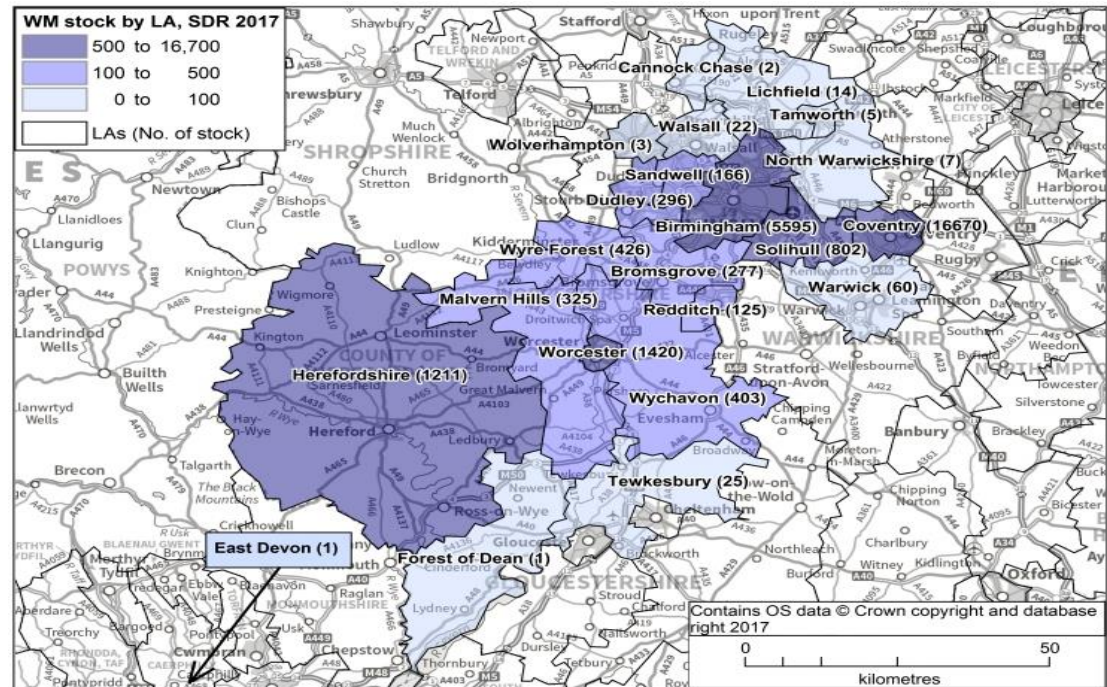Asset Performance Evaluation

Informing Change

Samantha Evans – Asset Manager

Stock Investment:
Keeping our assets in a condition appropriate for their use and that meet regulatory requirements

Active Asset Management:
Maximising the value derived from our assets by the business – value that is utilised in delivery of our social purpose

WM stock by LA, SDR 2017
- 500 to 16,700
- 100 to 500
- 0 to 100
- LAs (No. of stock)

Cannock Chase (2)
Lichfield (14)
Tamworth (5)
Walsall (22)
Wolverhampton (3)
North Warwickshire (7)
Sandwell (166)
Dudley (296)
Birmingham (5595)
Coventry (16670)
Wyre Forest (426)
Solihull (802)
Bromsgrove (277)
Warwick (60)
Malvern Hills (325)
Redditch (125)
Worcester (1420)
Herefordshire (1211)
Wychavon (403)
Tewkesbury (25)
East Devon (1)
Forest of Dean (1)

Contains OS data © Crown copyright and database right 2017

wm housing group

WM Housing
Asset Performance Evaluation Model

- Includes rented stock from all 4 stock owning associations

- Asset group hierarchy

Company, Local authority, construction, property, tenure, age, sub geographic area

Social performance measures

- Income

Current tenant arrears, Housing Benefit recipients, Sap, Income deprivation

- Demand

Turnover, Refusals, satisfaction with place

- Housing Management

ASB, Geographic Barriers (IMD), under occupied properties

Family

26,000 Properties

West Mercia Homes

Optima

Whitefriars

wm housing group

Overview results

NPV

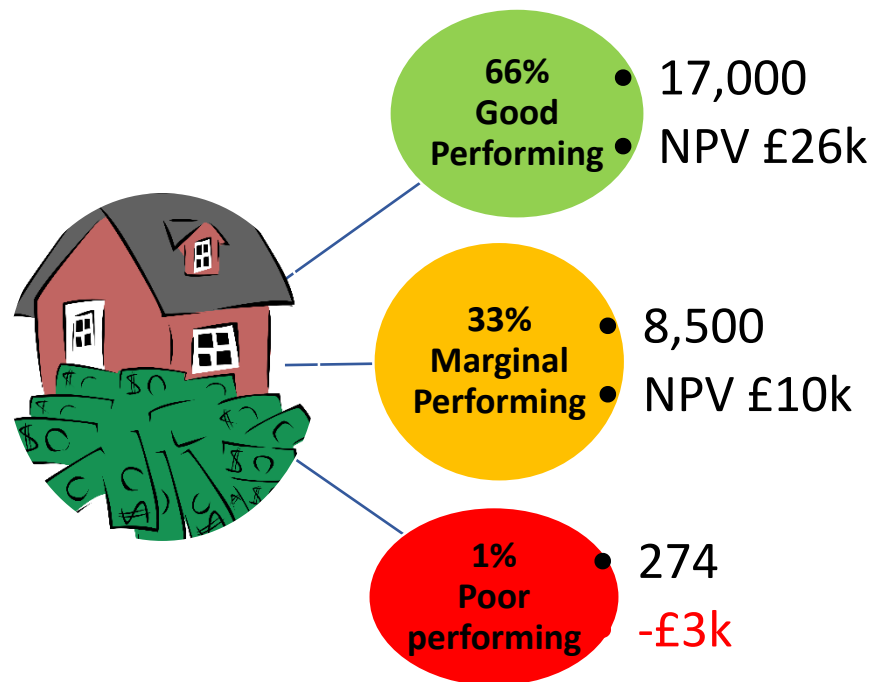Detailed analysis identified factors affecting asset performance ranged from
- Inability to recharge a number of leaseholders for major works
- High future capital expenditure requirements
- Low rent levels
- Management issues such as voids, turnover and high day to day maintenance costs.

Social Performance

Performance is driven by different issues in different areas.

Low sustainability scores
- Birmingham – Family, high rent arrears, high income deprivation and low sap ratings
- Hereford and Worcestershire - high income deprivation and low satisfaction with place
- Birmingham – Optima, high rent arrears, high income deprivation and high levels of under occupation
- Coventry - high rent arrears, high income deprivation and high rates of refusals

66% Good Performing
- 17,000
- NPV £26k

33% Marginal Performing
- 8,500
- NPV £10k

1% Poor performing
- 274
- -£3k

wm housing group

Responding to the what the model told us

- Option Appraisal programme
  - Management review
  - Retain and invest
  - Change of use /change of tenure
  - Disposal
  - Development

- Established Projects
  - Fixed Leasehold
  - Rents
  - Management Agreement

- Local Management Plan
  - Management reviews

Using the model to inform change

Asset Management Strategy

- Identify potential for redevelopment and renewal of stock

- Option Appraisal process

- Stock disposals

- Stock acquisitions

- Retention of geographical outliers

- Voluntary Right To Buy

Opportunity focus

- Homeless provision

- Empty spaces/empty properties back into use

- Secondary Assets – garages

Next steps

- Update Model

- Option appraisal programme

- Identify opportunities
  - Properties suitable for disposal due to poor performance, or high value, or a combination of factors
  - Properties suitable for redevelopment
  - Opportunities for land assembly bringing in the performance of adjacent secondary assets

- Expand the use of the model to secondary assets (garage portfolio)

Thank you.

From the Affordable Housing Consultancy team at Savills.

See you at the conference!